

DIGEST OF PUBLIC TESTIMONY ON THE
PRESIDENT'S 1975 TAX PROPOSALS

PREPARED FOR THE USE OF THE
COMMITTEE ON WAYS AND MEANS
BY THE STAFF OF THE
JOINT COMMITTEE ON INTERNAL REVENUE
TAXATION



FEBRUARY 3, 1975

B. Permanent tax reductions for individuals and payments to nontaxpayers.

1. An increase in the low income allowance from the present \$1,300 level to \$2,600 for joint returns (\$2,000 for single returns).

2. A cut in the schedule of tax rates.

3. A 15-percent tax credit on the first \$1,000 of expenditures for thermal efficiency improvements in residences, effective January 1, 1975.

4. An \$80 per adult payment to nontaxpayers and a lesser amount for certain low income taxpayers who receive less than \$80 in tax reductions so their refund and tax reduction together equal \$80.

C. Permanent tax reductions for corporations.—A reduction in the corporate rate of 6 percentage points (from 48 percent to 42 percent) effective for 1975.

III. Resubmission of tax proposals of October 8, 1974, and earlier.

A. Elimination of the withholding tax on portfolio investments in the United States of nonresident aliens and foreign corporations.

B. Deduction of dividends paid on qualified preferred stock for corporate income tax purposes.

C. A new tax incentive for financial institutions for investment in residential mortgages.

DIGEST OF TESTIMONY ON TAX TOPICS

Following testimony from the Administration on the President's 1975 tax proposals, the Committee on Ways and Means conducted three days of panel discussions with various academic, business, labor, and consulting economists on January 27–29, 1975, and a day of testimony from Dr. Arthur Burns, Chairman of the Federal Reserve Board on January 30. The following is a digest of this testimony on the President's 1975 tax proposals, organized by tax topics.

I. INDIVIDUAL INCOME TAX CUTS

A. Tax Rebate for 1974

R. A. Gordon, University of California (Jan. 27)

Suggests that the President's proposed tax rebate will not provide a large enough stimulus and that the second of the proposed two-part payment will come too late. Asserts that much of a two-installment rebate will go into reducing debt and into savings, particularly given the current depressed rate of consumer confidence and the relatively small sum to be rebated to most taxpayers. Further, indicates that most of the rebates that would go to taxpayers with incomes over \$25,000 will not be spent.

Herbert Stein, University of Virginia (Jan. 27)

Considers a one-time tax rebate to be less of an economic stimulant than a permanent tax cut.

Paul A. Volcker, Princeton University (Jan. 27)

Question the effectiveness of a tax rebate in terms of stimulating spending or in encouraging lessening wage demand. Feels that a cut in withholding would be more effective.

Philip M. Klutznick, Committee for Economic Development (Jan. 27)

Questions whether the proposed rebate of 1974 tax is sufficient, since part of it would not be effective until September. Indicates that it is uncertain as to how much of such a rebate will be spent or saved, as a significant amount of it would go to higher income taxpayers.

Michael K. Evans, Chase Econometric Associates, Inc. (Jan. 27)

Believes that the general idea of a quick tax rebate deserves to be implemented, but feels that it should be modified to set a maximum rebate of either \$400 or \$500. Suggests an alternative rebate of about \$80 per capita for those with 1974 incomes of less than \$25,000; the credit could then be gradually reduced for taxpayers in the \$25,000-\$30,000 range, with no credit if income exceeds \$30,000. Maintains that such a rebate should occur as early as possible and be distributed in one lump sum during the first half of 1975 while there is the most economic slack.

Charles L. Schultze, The Brookings Institution (Jan. 27)

Favors an immediate rebate of \$12 billion on 1974 personal income tax liabilities (but with payment in one installment), with it concentrated more on lower and middle income taxpayers (e.g., a maximum of \$700 instead of \$1,000).

Joseph A. Pechman, The Brookings Institution (Jan. 27)

Indicates that the income tax rebate has merit, since it can be put into effect promptly without affecting other tax changes. However, points out that there is no guarantee that such a rebate would be spent to any greater degree than would a cut in regular withholding. Suggests a combination of a large rebate paid entirely as soon as possible, plus a regular cut in withholding soon thereafter.

Criticizes the President's flat-rate rebate as being too regressive in favor of higher income taxpayers, with 52 percent of the rebate going to taxpayers with incomes of \$20,000 and above. Contends that if \$12 billion is to be spent this year in tax rebates to stimulate consumer spending, the 1974 tax liability is not the most relevant distributional device. Favors a \$60 per capita payment to both taxpayers and non-taxpayers as being more equitable and providing greater amounts of spendable funds to the low-income family.

Walter W. Heller, University of Minnesota (Jan. 28)

Urges quick adoption of \$12 billion tax rebate for individuals (as time is of the essence), but recommends that it be restructured to direct more of the rebate to low- and middle-income groups and that it be made in one payment rather than two. Also, asks that consideration be given to including payments to those who paid no 1974 taxes—i.e., “a negative income tax.” Further, suggests that a refund of payroll taxes be considered to assist those who pay no income taxes.

Arthur M. Okun, The Brookings Institution (Jan. 28)

Calls for quick approval of a \$12 billion personal income tax rebate on 1974 taxes, but with it paid out entirely at once and with more of the rebate going to lower income families. Contends that the two-payment approach proposed by the Administration would delay and dilute its intended impact to “prime the pump” immediately. Asserts that financing a one-time payment during this fiscal year would not have an adverse impact on credit markets because of the drop in private credit demand. Estimates that the rate of GNP in the third quarter of 1975 will be \$10 billion higher if the rebate is paid in full in May rather than split into two payments.

Feels that because of the recent squeeze on real incomes of lower and middle income taxpayers, a relatively greater portion of the rebate should go to these groups. Suggests a limit of \$500, and allocating the extra to the lower end of the income scale. Discusses also the alternative of rebating 2 percentage points of workers' 1974 payroll taxes, which would also amount to about \$12 billion and give something back to workers who have no income tax liability (with a maximum of \$264 for each worker). Notes that while such payments would presumably be processed by the Social Security Administration, the amounts could be charged against general funds and would not alter the trust fund.

Robert Nathan, Consulting Economist (Jan. 28)

Urges speedy action on a rebate, but would prefer a lower ceiling—such as \$300–\$500.

Sherman J. Maisel, University of California (Jan. 28)

Indicates that speed is of the most importance, which could be done by limiting the bill to the rebate.

Henry L. Duncombe, Jr., Vice President and Chief Economist, General Motors Corp. (Jan. 28)

Supports the basic thrust of the tax cut recommendations made by the President's Labor-Management Advisory Committee for individuals. Maintains that the important factor is prompt action to restore confidence.

Leonard Woodcock, President, United Auto Workers (Jan. 28)

Feels that the proposed 12-percent rebate is skewed toward the higher income taxpayers, especially when account is made for total Federal taxes (including social security taxes) paid by low-income workers. Estimates that the lowest 20 percent of families would get only 4.1 percent of the total rebate, while the highest 20 percent would receive 50.5 percent. Claims that the proposal is also inequitable for larger families.

Notes that the President's Labor-Management Advisory Committee unanimously recommended an emergency income tax cut of \$20 billion—\$15 billion to individuals and \$5 billion to business—but that this was rejected by the President. Suggests that Congress adopt a personal income tax cut of at least \$18 billion, composed of a \$9 billion rebate of 1974 taxes (paid out in one sum) plus \$9 billion paid during the second half of 1975 through decreased withholding. The tax rebate could be via a per capita payment of \$40-\$45, but not to exceed the total income tax plus social security tax paid in 1974.

Michael Sumichrast, Economist and Staff Vice President, National Association of Home Builders (Jan. 28)

Feels it would be very beneficial for the refund to be larger in the \$12,500 to \$15,000 income brackets because people in these brackets are the home buyers and the \$151 proposed refund for people at \$12,500 is just not high enough to make any difference.

States that Mr. Ullman's rebate proposal, as well as the rest of his individual tax cut package, is acceptable.

Murray L. Weidenbaum, Washington University (St. Louis) (Jan. 28)

Suggests that the key function of a tax cut is to deal with the recession. Indicates that a debate over the income redistribution, which is a very valid long-term tax reform concern, could delay and dilute the effectiveness of the tax cut in terms of getting the economy expanding.

Believes that the advantage of a rebate for 1974 is that an increase in income taxes in the following year is avoided. States that a two-shot rebate makes sense providing the 1975 reduction is less than the 1974 reduction, if not, large potential deficits will build up in the economy when the economy is expanding.

Carl Madden, Chief Economist, Chamber of Commerce of the United States (Jan. 29)

Indicates that the \$12 billion rebate for individuals would be more effective if it were to be all in one payment. Feels that this amount of additional deficit is manageable in the present slack economy, and that it would not be inflationary. Favors tax reductions to stimulate the economy rather than expenditure increases.

George C. Hagedorn, Vice President and Chief Economist, National Association of Manufacturers (Jan. 29)

Would not oppose a temporary tax rebate at a time when economic resources are widely underutilized. Favors the direct payment of a 1974 individual income tax rebate because reduced withholding rates would be unpopular to reverse. Also, prefers payment of the rebate in two payments. Considers that a case can be made for weighting of rebate toward the low end of the income scale because lower income groups have been most heavily hit by inflation.

Nathaniel Goldfinger, Director, Department of Research, AFL-CIO (Jan. 29)

Expresses skepticism of the effect of the rebate approach, and favors a withholding cut instead. However, indicates that if there is to be a rebate, it should be in a lump-sum payment.

Hon. Arthur Burns, Chairman, Federal Reserve Board (Jan. 30)

Could support Chairman Ullman's bill if it provided first a temporary cut in the form of a tax rebate of \$6 or \$8 billion and then a temporary cut through the withholding route, the temporary cut in withholding being only for one year at this time. Suggests that the rebate and the withholding rate cut be at a uniform percentage, steering away from the questions of social values and income redistribution.

B. Income Tax Cut for 1975 or later

R. A. Gordon, University of California (Jan. 27)

Favors a larger tax reduction (of \$20 billion or more in 1975), chiefly in the form of reduced withholding. Would prefer to see withholding tax cut continued at least through 1978. Notes that indexing of the tax schedule would provide automatic stabilizer which would tend to restrain inflation.

Recommends supplementing a tax cut with \$5 billion for public service employment. Maintains that such expenditures give more "bang for a buck" than do tax cuts or other types of public expenditures.

Philip M. Klutznick, Committee for Economic Development (Jan. 27)

Feels that because of the deepening recession, the economy will need a net fiscal stimulus of about \$25 billion just to stop the downslide this year. Proposes a personal income tax cut of \$20 billion, in the form of a 3-percent tax credit against the first \$15,000 of earnings. Notes that this would help wage earners offset some inflation. Recommends that this cut be immediate and permanent through reduced tax withholding. Suggests that the additional \$5 billion of stimulus be from a combination of business tax cuts and increased government expenditures.

Paul A. Volcker, Princeton University (Jan. 27)

Maintains that permanence of cut in withholding taxes should depend on what appears on the expenditure side of the budget. Suggests that the reduced withholding could be made retroactive to the first of 1974 by dropping withholding by an extra amount for awhile and then bring it back to the desired level.

Indicates that individual income tax cuts can be distributed through low income allowances, exemptions, or reduced rates.

Michael K. Evans, Chase Econometric Associates, Inc. (Jan. 27)

Asserts that the outlook for permanent tax changes is cloudy at present and depends largely on what happens to the President's energy tax package. Suggests a revision in the tax tables so that they are denominated in terms of real income (i.e., "indexed") rather than in current money income; thus, inflation would not cause a taxpayer to move into a higher tax bracket.

Favors an increase in the low-income allowance and standard deduction.

Herbert Stein, University of Virginia (Jan. 27)

Prefers a permanent tax cut as opposed to a 1974 rebate. Suggests a tax cut which offsets the increase in taxes which result from inflation, by increasing exemptions, the low-income allowance, and the maximum standard deduction. Believes most tax relief should go to low-income individuals but with some relief for everyone. Asserts that people will be likely to spend a permanent cut, but will save a one-shot rebate.

Charles L. Schultze, The Brookings Institution

Suggests a permanent cut of \$10 billion in personal income tax to be reflected in reduced withholding as soon as possible (such as a tax credit of 1½ percent on the first \$14,000 of earned income, which would be, in effect, a return of a portion of social security taxes without disturbing the social security system). However, contends that if social security benefits and certain expenditure items are cut, as recommended by the President, then additional stimulus will be needed by enacting a larger tax cut.

Believes that a major part of the tax cut should be temporary as fiscal stimulus is needed now, but may not be needed later. Acknowledges, however, that people will spend a smaller portion of a temporary cut than a permanent one. Indicates that there should be some permanent tax cut, but stresses caution in this area.

Joseph A. Peckman, The Brookings Institution (Jan. 27)

Increases in the tax-free levels.—Feels that the most urgent need is to raise the minimum tax-free levels to at least the current poverty levels. Discusses various possible alternative approaches:

(1) increasing the low-income allowance from \$1,300 to \$2,000 for single persons and \$2,600 for married couples, as proposed by the President (at a cost of \$5.0 billion, of which 93 percent would go to those with incomes less than \$20,000);

(2) increasing the personal exemption from \$750 to \$900 and the low-income allowance from \$1,300 to \$2,000 (at a cost of \$8.7 billion, of which 74 percent would go to those with less than \$20,000);

(3) raising the low-income allowance to \$2,000, with an additional per capita credit of \$25 (at a cost of \$7.6 billion, of which 84 percent would go to taxpayers with less than \$20,000); and

(4) permitting taxpayers a \$220 per capita credit as an option to the personal exemption, which would give more equitable relief to low- and middle-income families (at a cost of \$8.2 billion, of which 95 percent would go to those with incomes below \$20,000).

Suggests that consideration be given to indexing exemptions.

Tax rate reductions.—Considers cuts in tax rates for the lowest income brackets as appropriate for 1975 and 1976 due to the economic situation, but with the desirability of conditioning rate cuts for 1977 and after on enactment of real tax reform or on the finding that the revenues were not needed for expenditure programs later. Notes that about 77 percent of the President's proposed rate reductions would go to taxpayers with incomes below \$20,000, which is a much more progressive distribution than the proposed rebate.

Refundable payment to nontaxpayers.—Endorses the concept of a per capita payment (or refundable credit) to those who are nontaxpayers. Asserts that this would not only improve the equity of the tax system but would also provide the impetus for a reconsideration of the negative income tax.

Walter W. Heller, University of Minnesota (Jan. 28)

Calls for an additional tax cut for 1975 to keep the economy from sliding into more recession in 1976. Suggests an immediate reduction of, say, 2 percentage points in the withholding rate in a first bill, leaving more precise changes for a follow-up bill.

Further, asserts that reducing the payroll tax would be a better way of helping low-income workers.

Arthur M. Okun, The Brookings Institution (Jan. 28)

Recommends a permanent tax cut of \$10 billion per year, structured to make the income tax more progressive by reducing the tax primarily for lower income taxpayers.

Sherman J. Maisel, University of California (Jan. 28)

Proposes that the fiscal stimulus be provided by a temporary income tax cut that could be rescinded if inflation gets out of hand. Believes that tax policy should be more flexible so as to avoid such extreme fluctuations in interest rates. Maintains that we must take into account the fiscal situation 3 years from now also.

Leonard Woodcock, President, United Auto Workers (Jan. 28)

Proposes a reduction in withholding effective July 1, 1975, at a 6 months rate of \$9 billion (\$18 billion annually), to be accomplished by a per capita credit (\$80-\$85 annually) plus a 5-percent negative surcharge (with an overall limit of \$400). Asserts that reducing withholding taxes will carry forward the stimulus provided by the one-shot tax rebate, since most middle-income earners determine their purchases of durable items by their ability to make the extra monthly payment.

Believes that eventually we would move to a major modification in the Social Security System with one-third paid by the employer, one-third by employees, and one-third out of general revenues; and that a first step towards that would be to allow a tax credit in the present bill against social security taxes paid at the lowest income levels.

Michael Sumichrost, Economist and Staff Vice President, National Association of Home Builders (Jan. 28)

Favors a 1975 tax cut to stimulate the economy, but believes that the real problem is the high level of Federal, State and local expenditures, which will have to be reconsidered before making any permanent tax cuts.

James S. Dusenberry, Harvard University (Jan. 29)

Favors a temporary tax reduction, but with it slanted toward the low-income workers who would be more likely to spend it. Also, recommends a permanent cut in tax rates to offset the increase in effective tax rates due to inflation—of about \$15 billion.

Paul W. McCracken, University of Michigan (Jan. 29)

Prefers a permanent tax reduction to a temporary tax rebate as a means of stimulating consumer spending. Feels the important factor in the tax cut is in its promptness, not necessarily in its exact form. Is more inclined to have a tax reduction more evenly distributed throughout the spectrum largely on the basis that inflation has inadvertently shifted the rate structure in real terms.

Believes that indexing, which would keep the real burden of the tax system neutralized, makes a lot of sense. Maintains that the real burden of the tax system should not increase via inflation.

Carl Madden, Chief Economist, Chamber of Commerce of the United States (Jan. 29)

Favors an across-the-board tax cut. Contends that income distribution and tax reform are questions separate from the question of economic stimulation.

Regarding the inflationary effect on the tax brackets, would support an indexing method to achieve neutrality.

Robert H. B. Baldwin, President, Morgan Stanley & Co. (Jan. 29)

Sympathizes with objectives of a tax cut to stimulate the economy, but hopes that it will not rekindle inflation. Finds the possibility of large deficits for two years approaching \$75-\$100 billion as alarming. Views the rapid growth in government expenditures to have been an important factor in recent inflation. Sees a danger of too much stimulus that may come at the time the economy may be actually recovering. Feels that substantial increases in Treasury borrowing needs will push up interest rates again and squeeze some private investment needs unless monetary policy is eased significantly. Warns of the inflationary implications of large deficits and easy money policy.

Nathaniel Goldfinger, Director, Department of Research, AFL-CIO (Jan. 29)

Urges consideration of the Labor-Management Advisory Committee recommendation of a \$15 billion cut in personal income taxes, effective January 1, 1975, by means of a \$70 per capita credit and a 5-percent cut in the tax remaining after the exemption credit (with a maximum credit of \$375). Contends that this approach would give most of the individual tax benefit to low- and middle-income taxpayers, while the President's proposed 12-percent rebate would give larger benefits to the higher income taxpayers.

Supports also a program to reduce the impact of the payroll tax on low-income workers by replacing the trust fund amounts from such a tax reduction with money from the general fund. Feels that some relief should go to low wage earners who pay no income tax but pay the social security tax.

Robert V. Roosa, Partner, Brown Bros. Harriman & Co. (Jan. 29)

Believes that the first need is to stimulate both consumption and investment. Expresses doubt as to whether the proposed rebate of 1974 taxes will have enough impact to be worth the total expenditure, but would not strenuously oppose it. Favors the use of one payment rather than two if a rebate is used. However, prefers a reduction of 1975 taxes, beginning with a suspension of withholding of up to, say, \$75 per month for each taxpayer for 3-6 months. Agrees with the proposal for a flat disbursement of \$80 to all nontaxpayers.

Favors indexing individual income tax rates to evenly distribute the tax burden.

Hon. Arthur F. Burns, Chairman, Federal Reserve Board (Jan. 30)

Supports the principle of quick, temporary tax cuts under current conditions. However, would not try to deal with problems of income distribution now. Opposes permanent tax reductions at this time as he would not now want to further erode the tax base.

Contents that defeat of inflationary pressures must remain a major goal of public policy. Opposes indexing the income tax because the country's resolution should be to stop inflation not live with it. Favors a uniform percentage tax rate cut to account for the inflation-caused push of incomes to higher tax brackets.

II. CORPORATE TAX REDUCTION

A. Investment Tax Credit

R. A. Gordon, University of California (Jan. 27)

Expresses doubt that the proposed increase in the credit to 12 percent will result in much additional investment due to business pessimism, falling profits, a liquidity squeeze, and high long-term interest rates.

Herbert Stein, University of Virginia (Jan. 27)

Expects a temporary increase in the investment tax credit to be a relatively more powerful economic stimulus than a temporary personal income tax cut. However, prefers a permanent cut in corporate tax rates to another change in the credit.

Paul A. Volcker, Princeton University (Jan. 27)

In the short run, considers a sizeable increase in the investment credit as the most effective technique in stimulating needed business investment. Doesn't believe that it is a good thing to jiggle the investment tax credit around in the long run. Prefers an across-the-board increase, but would not oppose selective credit if future investment needs could be predicted for industries not having excess capacity.

Michael K. Evans, Chase Econometric Associates, Inc. (Jan. 27)

Favors the elimination of the 50 percent of tax limitation upon use of the investment tax credit. Favors a permanent increase in the credit rate but fears that change would hold up passage of the bill.

Asserts that a temporary tax credit increase would have a limited stimulative effect. Considers the proposal for a variable tax credit for utilities which invest in facilities not using oil or gas to be an excellent idea. Suggests that consideration should be given to granting a higher tax credit on any class of investment which significantly increases fuel efficiency, with a possible elimination of the credit for investments which did not increase either labor productivity or fuel efficiency. Maintains, however, that an expansion of the tax credit will not prove enough to adequately stimulate supply.

Charles L. Schultze, The Brookings Institution (Jan. 27)

Endorses a permanent increase in the investment tax credit from 7 percent to 10 percent, including a provision allowing public utilities to take full advantage of the 10-percent credit (for an estimated cost of \$2½-3 billion).

Joseph A. Pechman, The Brookings Institution (Jan. 27)

Asserts that the spending stimulus from an increase in the credit is much larger dollar-for-dollar than a cut in corporate tax rates. Favors removal of the 50-percent limit, as well as an increase in the credit for

at least two years, followed by a reexamination of the credit to determine its effectiveness. Contends, however, that consumer tax cut will stimulate the economy better than a cut in the investment credit.

Walter W. Heller, University of Minnesota (Jan. 28)

Indicates that it seems desirable to increase the credit somewhat—such as the suggestion for a temporary increase to 12 percent, then return to 10 percent. However, feels that an incremental tax credit would provide the most “bang” for the “buck.”

Arthur M. Okun, The Brookings Institution (Jan. 28)

Endorses the proposed increase in the credit as a supplement to consumer tax reduction. Feels that it will bolster capital spending—not so much by stimulating new expenditures as by neutralizing the tendency for delay and deferral of planned investment now under way. Asserts that some continued investment incentive will be needed in 1976 as well, such as a 10-percent credit rather than a drop back to 7 percent.

Sherman J. Maisel, University of California (Jan. 28)

Generally supports the administration's proposal for a temporary increase in the credit.

Maintains that past evidence indicates that an investment credit increase provides more stimulus than an equal amount of corporate rate reduction.

Murray L. Weidenbaum, Washington University (St. Louis) (Jan. 28)

Investment tax credit for utilities.—Endorses the President's proposal to provide utilities with the same credit rate as other industries. Calls it long overdue, especially since utilities are experiencing great financial difficulties. Recommends approval of the proposed higher investment credit rate for an additional two years for utilities (except for oil- and gas-fired facilities) because of the longer lead time required to construct a new facility. Proposes waiving, at least temporarily, the 50-percent limit on the credit for utilities. Prefers, however, a complete elimination of the 50-percent limit.

Henry L. Duncombe, Jr., Vice President and Chief Economist, General Motors Corp. (Jan. 28)

Supports the Labor-Management Advisory Committee's recommendation for a temporary increase in the credit.

Leonard Woodcock, President, United Auto Workers (Jan. 28)

Supports an increase in the investment tax credit, but only for 1975, to be reexamined later during tax reform.

Robert Nathan, Consulting Economist (Jan. 28)

Maintains that as long as other industries get investment credits the utility sector should get the same 12-percent rate, or even more, in the short run. Would rather see an increase in the credit rather than a cut in the corporate tax rate to 42 percent. Does not see any sense in the 50-percent limit. Suggests that serious consideration be given to providing selective incentives to various industries.

James S. Dusenberry, Harvard University (Jan. 29)

Favors a temporary increase in the investment tax credit. Feels that the credit should be reexamined as part of the total tax reform package. Indicates that the rate should be flexible.

Paul W. McCracken, University of Michigan (Jan. 29)

Supports the increase in the investment credit, as a short term alternative to more fundamental restructuring of corporate profits taxation.

Suggests a permanent increase from 7 to 10 percent. Believes that while the investment tax credit will help, some kind of direct financial assistance will be required as a part of energy policy. States that to a substantial extent, the investment tax credit could be thought of as a backdoor way of handling what ought to be handled frontally; namely, current accounting features do not measure corporate income accurately and during an inflationary period tend to overstate corporate income.

Carl Madden, Chief Economist, Chamber of Commerce of the United States (Jan. 29)

Favors a 12-percent investment tax credit, and stresses the desirability of permanency of the increase. Asserts that the proposed increase is needed to stimulate investment in new plant and equipment. Indicates that 12 percent reduced to 10 percent, however, is better tax policy than reducing it back to 7 percent permanently.

George C. Hagedorn, Vice President and Chief Economist, National Association of Manufacturers (Jan. 29)

Endorses a liberalization of the investment credit, as it would help to offset the severe shortage of capital funds. Questions desirability of a one-year increase, however, as creating an artificial cycle in capital expenditures. Recommends prompt enactment of a permanent 10-percent credit, but without a basis adjustment.

Indicates some agreement to a one-year rate increase to 12 percent followed by a permanent rate of 10 percent. Favors allowance of credits for the year the monies are expended rather than the year in which the project is completed.

Robert H. B. Baldwin, President, Morgan Stanley & Co. (Jan. 29)

Approves the proposed increase in the investment credit, but proposes that it be made permanent. Sympathizes with the objectives of a tax cut to stimulate the economy, but hopes it will not rekindle inflationary pressures.

Nathaniel Goldfinger, Director, Department of Research AFL-CIO (Jan. 29)

Supports the Labor-Management Advisory Committees proposal for a temporary increase in the credit to 12 percent for all industry, including utilities rather than a reduction in the corporate tax rate. Believes that the credit should be reconsidered as a part of tax reform later this year.

Robert V. Roosa, Partner, Brown Bros. Harriman & Co. (Jan. 29)

Urges that the increase in the investment credit to 12 percent be permanent, so that it will provide a continuing structural inducement to added investment.

Hon. Arthur F. Burns, Chairman, Federal Reserve Board (Jan. 30)

Suggests confining the increase in the investment tax credit to one year as of this time.

B. Corporate Tax Rate Cuts

R. A. Gordon, University of California (Jan. 27)

Believes it would be simpler to provide a general reduction in corporate rates than to provide a one year increase in the investment tax credit.

Herbert Stein, University of Virginia (Jan. 27)

Prefers a permanent cut in corporate tax rates to a further change in the investment tax credit, since the credit has been subject to several legislative changes.

Paul A. Volcker, Princeton University (Jan. 27)

In the long run, suggests consideration of a restructuring of the tax on corporate profits, to lessen the tax penalty against equity capital.

Michael A. Evans, Chase Econometric Associates, Inc. (Jan. 27)

Contents that a reduction in the corporate income tax rate from 48 percent to 42 percent is both a necessary and powerful tool to accomplish the needed increase in productive capacity. Asserts that such a tax reduction will provide a significant increase in corporate cash flow, result in a lower rate of inflation in the long run because the pretax rate of return required on invested capital can fall for the same after-tax rate of return, and it will lessen the dependence of corporations on the bond market. Maintains that if this rate reduction is not included in the overall tax package, inflationary pressures will reemerge during 1976. (Proposes a cut in the corporate rate to 40 percent.)

Paul W. McCracken, University of Michigan (Jan. 29)

Favors the proposed reduction in corporate tax rates, to provide funds for needed investment. Notes that profits after taxes of nonfinancial corporations, as a percentage of gross corporate product, declined from 9.7 percent in 1965-66 to 5.1 percent by 1971 and to about 4 percent in 1974, which has had an adverse impact on true retained earnings.

Carl Madden, Chief Economist, Chamber of Commerce of the United States (Jan. 29)

Suggests that a reduction in corporate tax rates can deal with those businesses which cannot take advantage of the investment tax credit.

George C. Hagedorn, Vice President and Chief Economist, National Association of Manufacturers (Jan. 29)

Urges cutting the corporate tax rate. Contents that much of current profits are illusory due to inflated inventory values. Endorses proposal to cut corporate rate from 48 percent to 42 percent; suggests this could be done by reducing both the normal tax and the surtax by 3 percentage points.

Nathaniel Goldfinger, Director, Department of Research, AFL-CIO (Jan. 29)

Prefers a temporary increase in the investment credit to a reduction in the corporate tax rate.

C. Other Corporate Tax Provisions

Murray L. Weidenbaum, Washington University (St. Louis) (Jan. 28)

Tax deduction for dividends on preferred stock.—Asserts that this proposal will help alleviate the severe financial situation of utilities by attracting additional outside capital.

Robert Nathan, Consulting Economist (Jan. 28)

Depreciation.—Contents that accelerated depreciation should be normalized and not flowed through for utilities, as there is no point in permitting such accelerated depreciation if the States can deny the tax benefits to the utilities by requiring flow-through.

Dividends on preferred stock.—Endorses the President's proposal for tax exemption of dividends paid on qualified preferred stock. Asserts that utilities would be greatly helped if a tax exclusion were also adopted on dividends that common shareholders automatically reinvest in additional common shares.

Tax carrybacks.—Indicates that some utilities would benefit by a lengthening of the tax carryback period, which would also enhance their ability to enjoy the benefits of investment tax credits.

George C. Hagedorn, Vice President and Chief Economist, National Association of Manufacturers (Jan. 29)

Capital recovery allowances.—Recommends consideration later of setting a "capital recovery allowance" system for plant and equipment, thereby abandoning the "useful life" concept.

Robert V. Roosa, Partner, Brown Bros. Harriman & Co. (Jan. 29)

Dividends on preferred stock.—Endorses the proposal to permit deduction of dividend payments on preferred stock, as an encouragement to attracting equity capital.

III. ENERGY TAXES

R. A. Gordon, University of California (Jan. 27)

Believes that the President's overall proposal will have a depressing effect on production and employment while being inflationary throughout the economy. Doubts that all of the tax cuts will be spent, thus causing a depressing effect. Does favor a permanent reduction in corporate income taxes, but feels that there will not be much stimulus from this in the short run because part of the reduction will go into increasing cash liquidity.

Argues against exclusive reliance on the market-price system to allocate necessary fuels. Maintains that the energy conservation program should discriminate against the less essential use of autos and gasoline. Favors gas rationing, and the sooner the better, along with some increases in the gasoline tax offset by an equivalent reduction in income taxes for lower income groups.

Recommends consideration of a substantial horsepower tax on new autos, similar to the European system.

Prefers rationing on basis of auto registration rather than by drivers' licenses. Believes that it is appropriate to consider disallowance of deductions for advertising by oil companies since the purpose of advertising is to increase consumption.

Herbert Stein, University of Virginia (Jan. 27)

Expresses agreement with many aspects of the program, especially the emphasis on higher prices as a means of restricting imports of oil and consumption, the removal of price controls on oil, and the avoidance of rationing and allocations. Disagrees with the proposed windfall profits tax on domestic oil production as being discriminatory against oil. Maintains that oil should not be favored or disfavored by tax policy.

Paul A. Volcker, Princeton University (Jan. 27)

Emphasizes that any program that attempts to achieve energy conservation goals and lessening of demand for imported oil will complicate the immediate problem of dealing with recession and inflation while not eliminating our vulnerability to an oil embargo for some years. Views a sudden \$30 billion energy fiscal package as being uncertain in its impacts, with at least a short run drag on the economy while at the same time causing prices to rise.

Agrees with the President's long-term goals and the emphasis on price and market mechanisms, but that it would be too much for the present economy. Suggests limiting permanent new taxes to excises on gasoline and a horsepower tax on autos. Believes that revenues from a temporary windfall profits tax should be returned to the economy.

Indicates that percentage depletion is there to stimulate drilling which is to be encouraged at this time, but would not hold out for percentage depletion so long as the package as a whole is balanced.

Philip M. Klutznick, Committee for Economic Development (Jan. 27)

Maintains that the President's proposed energy taxes will raise prices on gasoline, fuel oil, electricity, etc., and will increase the average family's energy bill by \$250-\$300 a year. Feels that there is risk that the overall inflationary impact of the package will be substantial, after taking into account its indirect impact on costs and prices, including multiplier effects on wages and other costs of business. Indicates that more tax relief may be needed to offset the dampening effect of the energy taxes, and that there is a separate need for a prompt tax cut so that the pinch of the new energy taxes will not hurt the economy before the tax relief is enacted. Asserts that a much stronger net stimulus is needed than contained in the President's program—by about \$10 billion.

In addition, favors the imposition of a punitive tax on autos based on horsepower.

Michael A. Evans, Chase Econometric Associates, Inc. (Jan. 27)

Argues that the President's proposed energy program has no redeeming features, except for the proposed deregulation of oil and natural gas. Proposes that an investment offset be allowed against the windfall profits tax if adopted to encourage increased domestic supply.

Believes, however, that a gasoline tax of about 30 cents a gallon is preferable to a tax on crude oil. Contends that a gasoline tax would have more of an impact on cutting demand for oil as well as resulting in less overall inflation because putting a 30-cents-per-gallon tax on gasoline would decrease the number of cars as well as save energy. Claims that an abrupt increase in the gasoline tax would be more efficacious in changing buying habits than a gradual increase in the tax. Estimates that a 30 cents-a-gallon tax would produce revenues of \$25 billion as compared to the President's proposed \$40 billion in the taxes on oil and gas.

Suggests consideration also of a tax credit for smaller cars that have greater fuel efficiency, which could result in a long-run gasoline savings of 3.5 million barrels per day, which would be in addition to the 1 million barrels per day saved immediately through the higher gasoline tax.

Estimates that the deregulation of old oil and a \$2/bbl. tax on all crude and imported oil products would raise the wholesale price index for petroleum products by 47 percent and the industrial WPI by 3 percent; the deregulation of natural gas and a 37¢/mcf excise tax would raise the industrial WPI by 3.8 percent; while the consumer price index would rise 2 percent because of the higher gas and oil prices, with an additional 0.8 percent due to secondary effects of cost-push inflation.

Charles L. Schultze, The Brookings Institution (Jan. 27)

Oil import fee.—Feels that although it is important to reduce our dependence on oil imports over the next five years, it is not a necessary condition now for economic recovery. Asserts that the most needed action is an economic recovery, and that the President's import fee will seriously affect any recovery program by siphoning off \$800 million a month by April 1 (\$10 billion a year) from consumers which will almost negate the impact of the proposed tax rebate. Recommends that the President's action on oil imports be postponed for at least three

months, to give Congress a chance first to enact economic recovery measures and then consider a balanced energy program. Contends that if Congress fails to override or delay the President's oil import fee, then it will become essential for Congress to add at least \$10 billion to the tax cut.

However, favors gradual reduction in petroleum consumption through the price system, not through rationing.

Joseph A. Pechman, The Brookings Institution (Jan. 27)

Considers the proposed taxes on petroleum to be an ill-advised approach to the energy problem because such taxes will be counter-productive by causing prices to rise substantially; and secondly, they will depress demand because the \$6.5 billion in corporate tax rate reduction will have little effect on corporate spending in the short run.

Believes that a substantial tax on gasoline and on large autos is a preferable way to curb demand for oil (with the gasoline tax increased gradually); or, if a gasoline tax is not politically acceptable, then impose an import quota on oil and have gasoline rationing.

Walter W. Heller, University of Minnesota (Jan. 28)

Notes that the quadrupling of oil prices is now siphoning off some \$30 billion a year from consumers while adding about 3 points to the rate of inflation. Maintains that the President's proposed energy tax program would deal a double blow against the economy by boosting inflation and worsening the recession.

Urges consideration of an alternative energy program: combination of oil imports quotas and allocation; gasoline rationing; and a gradual increase in the gasoline tax (quarterly increases of 2½ cents a gallon until it reaches an additional 30 cents). Recommends a refundable income tax credit to offset the increased gasoline tax, with some of the increase revenues reserved, however, for mass transit, building up of an oil stockpile, and development of alternative energy sources.

Argues that the gradual increase in the gas tax would allow a gradual removal of the rationing system as the market moved to adjust to the situation. This would also allow a gradual adjustment toward smaller and more gasoline-efficient cars.

Sherman J. Maisel, University of California (Jan. 28)

Prefers a coupon rationing system, with marketable coupons, to the President's energy tax proposal.

Arthur M. Okun, The Brookings Institution (Jan. 28)

Endorses the separation of the anti-recession tax package from the more complex issue of energy taxes. However, contends that if the import fees go into effect and oil prices are decontrolled before income tax offsets can be enacted, there will be a substantial drain on the economy. If the President does not delay such action, recommends that the Congress restrict the President's statutory powers over tariffs and mandate the continued price ceiling on domestic oil.

Leonard Woodcock, President, United Auto Workers (Jan. 28)

Prefers a mandatory allocation system for equitably distributing fuel and forcing consumption reduction rather than excise taxes on crude oil or gasoline.

Robert Nathan, Consulting Economist (Jan. 28)

Finds it difficult to conceive of an approach which would be more harmful to public utilities than the proposed excise taxes on gas and oil. Feels that big price increases on fuel inputs are far more undesirable than selective excise taxes which can be adjusted and adapted to achieve conservation where feasible and needed as well as minimize the inflation impact on utilities.

Murray L. Weidenbaum, Washington University (St. Louis) (Jan. 28)

Maintains that there is no substitute for the painful method of increasing the price and ultimately increasing the rate of return to increase production of domestic energy. Believes that the rationing approach will not work to dampen demand for energy.

Carl Madden, Chief Economist, Chamber of Commerce of the United States (Jan. 29)

Concludes that, based upon the computer model of Data Resources, Inc., the President's energy package for 1975 will result in another year of double-digit inflation which is a serious matter.

George C. Hagedorn, Vice President and Chief Executive, National Association of Manufacturers (Jan. 29)

Prefers the price mechanism for restraining demand for energy, such as through a tax increase, rather than direct government intervention of allocation or rationing. Feels that the windfall profits tax is more doubtful in its impact, particularly if a "plowback" credit is not allowed.

Believes that an energy tax increase should be accompanied by tax reduction for individuals and corporations to avoid depressing the economy. Indicates that part of the tax relief should go to low-income taxpayers to account for inflation. Cautions, however, against always tilting tax cuts disproportionately against upper income taxpayers. Asserts that there is already sufficient progressivity in the income tax system.

Nathaniel Goldfinger, Director, Department of Research, AFL-CIO (Jan. 29)

Supports the Committee's action to delay the imposition of the tariff fee on imported oil. Argues that such a fee would discriminate against the northeastern states and would negate the stimulative effect of the income tax rebate.

Robert V. Roosa, Partner, Brown Bros. Harriman & Co. (Jan. 29)

Maintains that any change in depletion will hurt the search for new energy resources.

Hon. Arthur Burns, Chairman, Federal Reserve Board (Jan. 30)

Concludes that the President's energy proposal would serve to raise the consumer price level or to increase the consumer price level beyond what it would otherwise be. Adds, however, that it is hard to think of any energy program, designed to conserve oil and to develop alternative sources of supply, that wouldn't have an effect in that direction.

IV. OTHER TAX INCENTIVE PROPOSALS

Sherman J. Maisel, University of California (Jan. 28)

Tax credits for savings.—Proposes a tax credit to protect the purchasing power of a limited amount of savings by guaranteeing that the savings return to the investor would account for inflation by giving a tax credit or refund to the individual to the extent the combined interest payment (basic minimum plus inflation factor) from the account exceeded 8 percent. (For example, assume a basic minimum of 3 percent payout plus the annual rate of inflation, say, 7 percent, for a total of 10 percent return; a tax credit or refund would apply to the 2 percentage points paid in excess of 8 percent.)

Housing tax subsidies.—Urges major improvements in the tax subsidies to housing as a part of tax reform—such as a tax credit for property taxes and coordination of subsidies to mortgage lenders and borrowers. Asserts that an increase in the standard deduction will remove the tax deduction benefit for many taxpayers. Suggests consideration of an optional tax credit on housing purchases by taxpayers and nontaxpayers alike.

Robert V. Roosa, Partner, Brown Bros. Harriman & Co. (Jan. 29)

Withholding on foreign investors.—Suggests that foreign investors be exempted from withholding tax here only on investments which are fully reported to the Treasury, in order to prevent “invisible take-overs.”